Yachts & Marinas

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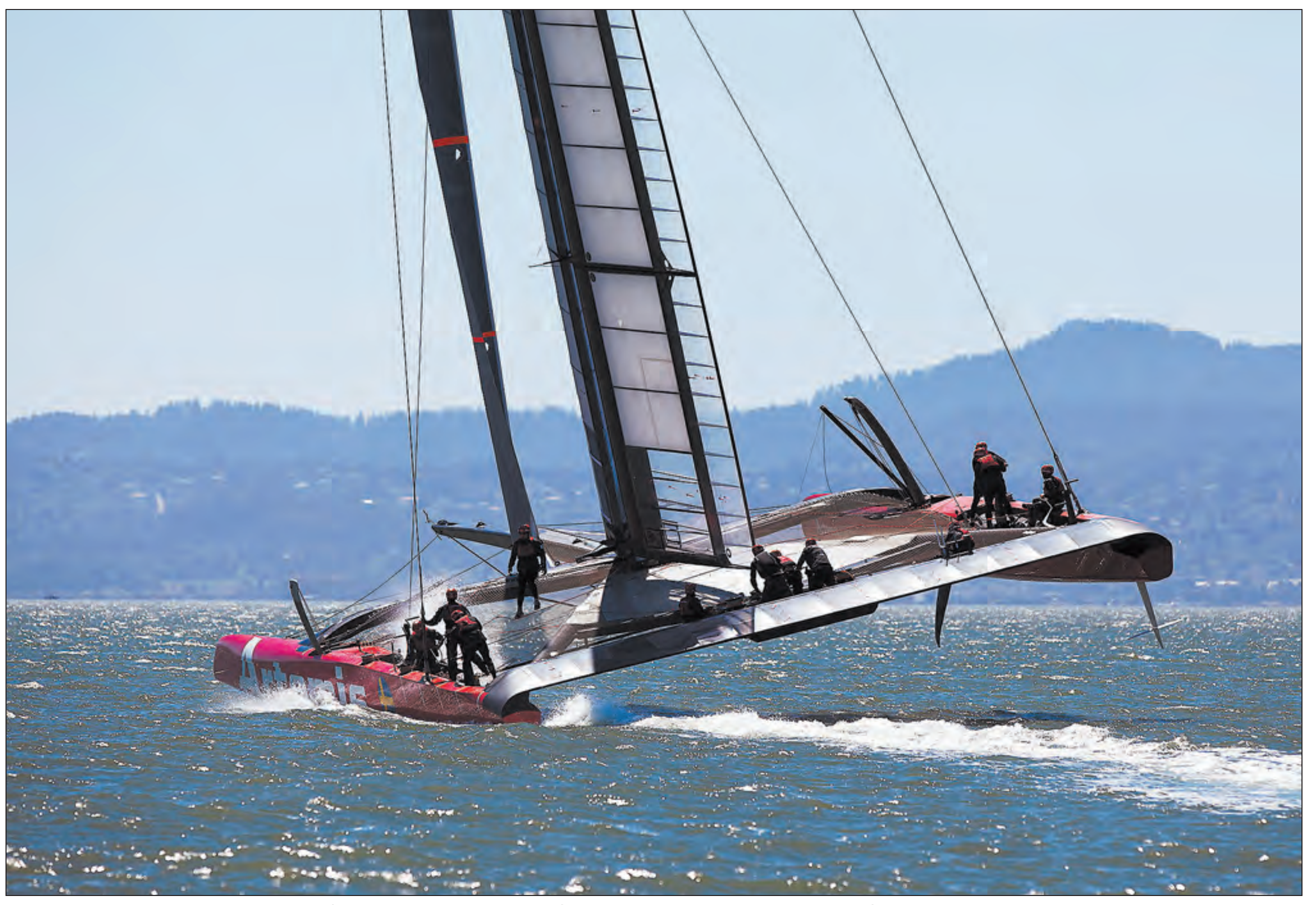
Highs and lows reflect tough time for sailing



The Artemis Racing America's Cup team training off San Francisco before Andrew Simpson's fatal accident America's Cup

Dazzling new superyacht launches cannot disguise a difficult market or sadness at a high-profile tragedy, writes *Richard Donkin*

Sometimes it takes a tragedy to remind those who sink millions into sport and leisure that ambition can outgrow the skills, invention and enterprise of those who work at the sharp end of their game. The death last month of the British Olympic gold medallist Andrew Simpson has brought sadness to the preparations for the America's Cup in July.

The America's Cup is at the pinnacle of sailing, bringing together the best sailors and the most obsessive of business leaders, often those with the deepest pockets. Add to this the kind of design flair that is taking sailing technologies into new and untried territory and the result is a seductive, costly and dangerous cocktail.

The 72ft-long, wing-sailed catamarans contesting the cup have been criticised by some who fear that the drive to pursue ever-better performance is overtaking the skills of the best crews. But pioneering work continues to push the limits of design and performance. Last November, Paul Larsen smashed the world speed record, taking Vestas Sailrocket 2 to an average of 75mph over 500m.

The thirst for speed and competition has entered the superyacht market with the rise of design-specific regattas such as the Perini Navi Cup and the Dubois Cup. Of the 15 100 metre-plus superyachts being built, four are sailing yachts. The biggest is the 147m White Pearl, under construction by Abu Dhabi Mar subsidiary Nobiskrug in Germany. It is reported to have been ordered by Russian businessman Andrey Melnichenko, owner of "A", one of the most radically designed motor yachts afloat.

New technology and design comprise the lifeblood of yachting. But the multibillion dollar business that ranges from weekend sailors in dinghies to billionaires in floating palaces is under pressure because of the financial crisis. The three and four-year builds that have seen many boatyards through the recession are complete and builders are looking for new customers.

"Early in the year I could count on one hand the number of people we knew wanting the yachts we build," says Burak Akgül, managing director of Perini Navi Group, one of Italy's most respected builders. "In the past two months since St Barths Bucket [regatta] interest has been building, so we're optimistic. We need to find customers. It's the same for everyone."

Brokers seem more sanguine. "When I was a child I saw the big boats rotting away on the Hamble [in Hampshire, England] and people said you'd never see them again. But now we're seeing yachts three times the size of those," says Nicholas Edmiston, chairman and managing partner of Edmiston, the yacht broker.

"But as an industry we're having to look farther afield for new business," he says. "I've just sold a boat to an Indonesian, we're active in Brazil and we've just taken a big order from Mexico. The US is beginning to wake up again but we're probably not going to see the activity we saw in the early 2000s in a hurry."

The harshness of the business climate is only partially masked by dazzling new launches, such as that recently of Azzam by the German builder, Lurssen. At 180m, it is the world's largest superyacht, taking over from Roman Abramovich's 163m Eclipse. With engines that deliver 94,000hp and a top speed of 30 knots, it is a throwback to the boom time of the early 2000s.

Up to now, much of the industry has survived by either living off existing orders, reducing capacity, taking on refit work, or shifting ownership in a number of high-profile takeovers. Only two weeks ago the FT reported the planned acquisition of Sunseeker, the UK-based motor yacht manufacturer by China's Dalian Wanda Group.

Takeovers aside, tight margins, a surplus of cut-price yachts in the second-hand market and a reluctance to spend among some of the

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Inside »

Mediterranean glamour ports fall behind times

Facilities Cheaper locations with modern utilities sell themselves as alternatives to congested berths such as Monaco, says *Richard Donkin*

Monaco's Port Hercules is consistently rated as one of the world's most exclusive berths for luxury yachts. Yet the Mediterranean principality's port offers limited privacy and its services are surpassed by less flamboyant locations. The same goes for Marina Grande on Capri and Portofino in mainland Italy – both a squeeze for the big yachts.

What does it take to join the top league of exclusive superyacht marinas? The answer – unfortunately for marina developers – is almost always the things money cannot buy. "It's all about location – heritage, history, harking back to the 1960s when celebrities made fishing villages such as Capri, Porto Cervo [in Sardinia] and St Tropez the places to be seen in," says Dean Smith, marketing director of MDL Marinas.

"To build a facility you need to overcome engineering challenges, but you can't create the glitz and glamour of Portofino or Monaco on Grand Prix weekend," he says. "Those places owe so much to their history."

While glamour, ambience and heritage allow the exclusive Italian and French marinas to charge some of the highest mooring fees in the world, a picture-book setting is not the whole story in marina excellence. Indeed, many of the choicest locations have inferior services to more modern developments where operators work hard to meet the year-round needs of boat owners and crews.

"More often than not, we spend the most time with captains and crews ensuring the operational needs of the yachts are met and the crew have the facilities to make their work enjoyable," says Kurt Fraser, sales and marketing director of Camper & Nicholsons Marinas.

The needs of boat owners fluctuate depending on the season and this is reflected in the choice of marina. A distinction can be made between harbours that owners will visit when holidaying, and marinas that may be used for servicing, fuelling and refits.

Roman Abramovich, the Russian oil billionaire, for example, uses an unimposing stretch of commercial docks in Barcelona so that he can have his yachts serviced in privacy at the MB92 refit and repair yard. "It's an unglamorous part of the port but big enough to take his superyachts, and it's fully secure with commercial-grade facilities," says Mr Smith.

Yacht owners and managers will often negotiate private deals to bring their yachts to the most fashionable ports. "It's really about who you know in some of those places," says Kenny Jones, executive vice-president of operations at IGY Marinas, which runs 13 marinas in seven countries.

Mr Jones lists four priorities to meet clients' needs: location, utilities, staff and security. "Location comes first. Is the marina where people want to be – close to great cruising and in the right spot, such as St Tropez in France or St Barths in the Caribbean?"

Second, says Mr Jones, are practical facilities such as sewage disposal, fuel delivery and power. The big marinas should have the means to provide adequate electricity.

This is becoming increasingly important for the biggest yachts. A pending EU directive will insist on land-based electrical power in port, rather than reliance on generators, which are often viewed as a nuisance and pollutant.

Some of the biggest yachts under construction will use the 6,600 volt standard of merchant marine and commercial shipping but few marinas offer the appropriate single-cable power supplies. Port Tarraco on Spain's Catalan coast has become the first Mediterranean marina to do so.

"We have the deep-water draft and access to services that enable us to offer long stays for megayachts," says Margarete Kalinowski, Port Tarraco's head of sales and marketing.

While different marinas fulfil different niches for users, the ones that stand out provide something more than an access code to the shower block. "Staffing is critical," says Mr Jones. "We focus on training and maintaining motivation and morale among staff. They're used to dealing with unusual requests."

A yacht arrived at one of his marinas with a damaged vase, he says. "It wouldn't have been a big issue, but the owner's wife collects works of art and this was one of a pair." The marina staff arranged a private jet to go to Italy while the artist who made the original crafted a replacement. "The owner's wife was none the wiser," says Mr Jones.

At another marina, a manager waits for one incoming boat with rolls of turf so that the owner can practise his golf swing on deck.

Security is crucial for yacht owners and marinas. Many superyacht owners shunned Antigua for years after the skipper of a 50m yacht was shot dead when walking through English Harbour in 2009. "If a facility isn't secure you simply won't have boats," says Mr Jones.

Mr Fraser agrees: "All of our marinas have 24-hour security personnel, CCTV and a security plan for major incidents."

Newer venues in countries such as Croatia and Montenegro offer increasingly high standards, often with tax benefits and lower berthing costs than the established Mediterranean haunts.

Mr Fraser describes some of the new developments as "commercial villages" with a mixture of retail and restaurants.

"Spas, beach clubs, crew bars, onsite hotels and concierge services – the list goes on," he says.

High stakes: Monaco offers heritage and history but its services are surpassed by some less famous marinas Richard Donkin

Buyers and specialist lenders explore alternative funding models

Finance

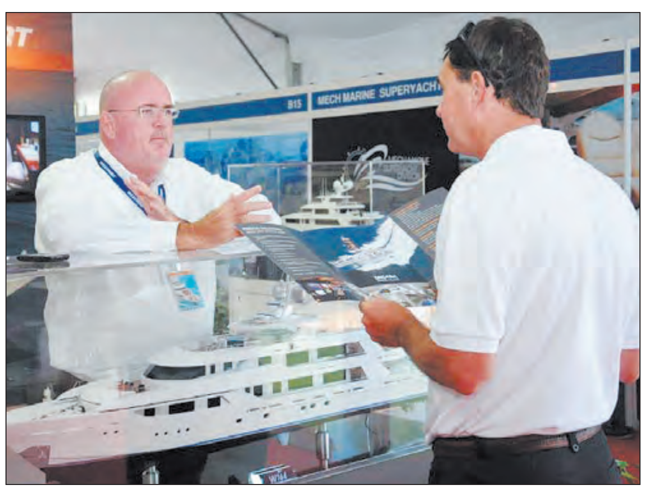
Perceptions of value have changed, writes *William Mathieson*

Up to the crash of 2008, banks were queueing up to offer finance to aspiring superyacht owners. The new-build market was booming, loan-to-value ratios were sky high, and finance was easily accessible. As the market slowed, the perceived safety of yachts as assets weakened, and lenders have grown cautious.

In mid-2013, finance is growing harder to find for superyachts, which can cost from €1m for a second-hand 30m yacht to more than €1m a metre for a top-end custom build. Where available, that finance comes with a growing list of caveats.

The range of institutions offering finance and the parameters for securing a loan have narrowed since the boom of 2006-08. Loan-to-value ratios have fallen from pre-recession highs of 80 per cent to an average of 50-60 per cent, and the maximum term appears to be seven years. The corporate and private arms of banks are under greater scrutiny and they demand the same of potential clients.

Mark Burgess, executive officer and counsel at BNP Paribas (Suisse) – one of the few banking institutions that promotes itself as a superyacht lender – says the bank's position remains "very customer driven". The accepted paradigm within yacht lending, and one of which BNP Paribas is a proponent, is that financing a yacht purchase is no longer a lender's motivation. Instead, the yacht itself is a loss leader, while the loan can form the basis for a long-standing agreement with the client, who brings a portfolio of manageable assets to the table. The most viable clients are those who do not necessarily require the capital but who, with "the increased liquidity", as Mr Burgess puts it, can "do better things with their own money elsewhere".



Shopping around: the Singapore Yacht Show 2012

The saturated state of the second-hand superyacht market has distorted prices, and put lenders off resale finance and refinance. The bottom end of the new-build yacht market, 30-45 metre boats, is also overcrowded. Competition is rife and residual value low, offering little encouragement to a financier.

A healthier section of the market is the fully custom 60m-plus range, costing from €50m up to €250m. "We're more interested in the new builds from 40 metres upwards," says Mr Burgess. "It's because of the high intrinsic value of the asset." Caution also pervades the 30-35m second-hand market. "There's a perception that a bubble exists in this segment and a [market] correction is needed."

The yacht finance market seems to be in retreat, with the number of lenders falling. Remco Immink, director of superyacht financier Ciris Capital, says institutional lending has almost died out. Mr Immink believes buyers and specialist lenders need to explore alternative models. "I spoke to someone [who also provides yacht finance] and he said, 'the business model is dead; don't spend too much time trying to get loans approved because they're not happening at the moment.'"

Ciris Capital is exploring other avenues because, as Mr Immink says: "The seller is becoming more and more involved in arranging loans through seller finance." With resale yachts at rock-bottom prices and new builds priced competitively, owners and shipyards are examining part-financing the sale or construction of vessels. This can change sellers' negative cash flow into positive, and in a resale, a seller can recoup some money lost through depreciation.

Because of the state of the sales market and limited availability of institutional finance, sellers are filling the void, and sometimes provide "very generous terms of vendor financing", says Jim Acher, a sales broker with Bluewater Brokerage. "This can be 50 per cent [loan to agreed selling price], and on occasion even more."

Market inertia is forcing sellers and brokers to think laterally. "Some sellers will consider further discounts if they are given some future use of the sold vessel through amenable charter options," Mr Acher adds.

Another trend in the second-hand market is offering part-exchange arrangements, in which assets such as jets and island villas are used as capital to fund the purchase. Such options, "whilst not for the top end of the market", says Mr Immink, "could become popular in the future [for smaller yachts]".

Yacht-for-yacht swaps are the most prevalent form of part-exchange, according to Jamie Small, sales broker for OceanStyle By Burgess. "But ultimately they're very difficult to make work. You've got two impassioned owners invariably pricing their yachts higher than they actually are."

Sellers and brokers are using such approaches in an attempt to bring equilibrium back to the market. The superyacht industry needs it in order to return to growth.

Mr Small is pessimistic about the future of conventional yacht finance. The reasons for the malaise could be longstanding: "[Securing] finance for yachts at the moment is very difficult. This is primarily because of the lack of financial supply, and because of a lack of appetite for financing what, in its essence, is a luxury toy."

Designs balance cost and luxury

Economy

These days, everyone is looking for value for money, says *Rod Newing*

While the super-rich have not lost all their wealth in these straitened times, most owners of large yachts are wary of conspicuous spending. They also want value for money from their running costs.

"I don't have a single client who isn't sensitive to the amount they are spending on their yachts," says Rupert Connor, president of Luxury Yacht, a yacht management group.

Andrew Winch, founder of Andrew Winch Designs, which works on yachts, private jets, houses and cars, agrees that every client is keen to avoid wasting money. "They are like the rest of us," he says, "except that instead of looking to save £100 or £1,000, they look for millions or tens of millions."

The general rule in the industry is that superyachts cost 10 per cent of their purchase price in annual running costs. Mr Winch points out that the easiest way to save costs is to build a smaller boat to the same quality. However, owners are actually building bigger yachts more cost effectively, but with less passenger capacity. Instead of beds for 25-30 guests, they want larger rooms for just the family and four to six friends. They also want a larger swimming pool, which does not add to the costs.

The best way to reduce expense is to charter a vessel, although this needs to be accommodated in the original design. Owners who do not charter "can have bigger, more luxurious cabins", says Ed Dubois, founder of Dubois Naval Architects. He adds that less than half his boats are chartered and rates depend on the number of cabins: a 50m vessel normally has an owner's cabin and four guest cabins and charters for about €180,000 a week. One less cabin reduces the rate to €130,000-€140,000.

Mr Winch says owners can recover half or even all their operating costs by chartering, although it is difficult to achieve zero lifestyle costs. For chartering, he would design in more facilities, such as larger steam rooms, jacuzzis, saunas and dining tables.

Crew are the largest expense in running a yacht and account for between 30 and 40 per cent of operating costs, says Mr Connor. Owners mainly want a good chef and stewards to provide superior hotel-type services. "It is all about luxury living," says Mr Dubois. "Handling the boat is the easy bit."

Good senior crew are essential, so there is little saving to be had by hiring cheaply. Mr Connor says that owners are willing to pay a premium for continuity of good service, but not 365 days a year. He says the industry has a lot of work to do to develop effective rotation between vessels. A good chef costs between $11,000 and $12,000 a month, which is expensive when the vessel is in a shipyard for refit.

"If owners only want to use the boat 12 weeks a year, they should be able to hire the same hospitality crew for each trip," he says, "with members being reassigned to other regular yachts under the same management."

Given that Mr Connor says most boats spend more than 95 per cent of their

> 'The rich are like the rest of us, except instead of looking to save £100 they look for tens of millions'

time moored, captains must seek cost-effective berthing. Rather than using the most convenient dock at $7/ft a day, they could get a tow up the river and dock for $1.50/ft. Even if the tow costs $1,000 each way, it is a big saving.

With fuel at 27 per cent of operating costs, he advises an aggressive search for competitive quotes. Whereas cars and almost all commercial shipping have one engine, private yachts usually have two. Owners do not want to save, because they like the security of a spare engine.

Obviously, the cheapest way to move a boat is by sail, although less than 10 per cent of Mr Connor's clients have sailing yachts. These are now highly automated, using computer-controlled, powered sail handling systems.

Mr Dubois, who invented the unmanned winches in widespread use, says all his boats are fully automated and one person could lift the anchor, raise the sails, sail away and change the wind from one side to the other, just by touching a computer screen. However, he warns that sails are expensive, so, to save wear, crews can motor-sail on delivery trips using a simple delivery sail.

Cost control starts with the design process. Length, number of cabins and recreation facilities all affect running costs. However, attention to small details can have a big impact, such as selection of materials. High-gloss varnish, stainless steel and exotic materials can require frequent attention.

Mr Connor says for one of his clients a $100,000 protective coating on a million-dollar paint job has extended its life by two years.

"We like to be involved in the design process as soon as possible," he says. "A lot of owners do not understand the implications of their decisions until the end of the project. Most yachts are run on a very emotional basis, with very little cost or break-even analysis on decisions."

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Russia delays tougher marine emissions standards

Environment

Regulations could affect charter, writes *Don Hoyt Gorman*

Stringent new emissions standards for yachts have been delayed after a surprise intervention by the Russian delegation at a meeting of the International Maritime Organisation (IMO) – the highest authority on marine pollution by shipping.

At last month's meeting the introduction of the toughest restrictions yet was postponed for five years to 2021. The decision followed Russian pressure that took the US delegation, who backed the original plan for introduction in January 2016, by surprise.

The new standards known as IMO Tier III mean that all ships, including superyachts, will have to reduce their emissions drastically, requiring the installation of selective catalytic reduction (SCR) systems. Yacht builders were concerned that the systems – which are relatively large and complex – would not fit into the engine rooms of yachts below the 500 gross ton threshold. Shipyards and designers were studying redesigns, in some cases eliminating a guest cabin to house the required exhaust after-treatment system.

In a segment heavily reliant on charter, worries about the potential loss of 20 per cent of a vessel's guest capacity, plus the increased costs of installation and maintenance of new systems prompted industry representations.

The primary lobbying body, the International Council of Marine Industry Associations (Icomia), conducted an investigation and presented its argument to the IMO in May. Citing significant economic impact on a sector of the yachting industry, Icomia asked for a three-year delay to allow innovations in SCR technology to reduce the size of the systems.

According to data from the industry resource SuperyachtIntelligence.com, the yards most likely to be affected by the Tier III limits are Azimut, Pershing (Ferretti), Sanlorenzo, Overmarine, Leopard and Sunseeker. It was not only the boatyards that faced pressure from the IMO regulations – most smaller high-speed yachts are powered by the M94 or M93 power plant from the German engine manufacturer MTU.

But at the meeting of the IMO's marine environmental protection committee in London in May, Icomia's argument – which had been supported by delegations from the Marshall Islands and the Cook Islands – was overshadowed by the Russian proposal. Russia's move successfully got the IMO to declare the five-year delay in the onset of the emissions limits for all types of vessel, worldwide.

As a result, yacht builders and engine manufacturers are now likely to spend this time researching and designing both yachts and engines that are Tier III compliant.

> Yacht builders were concerned that the systems would not fit into the engine rooms

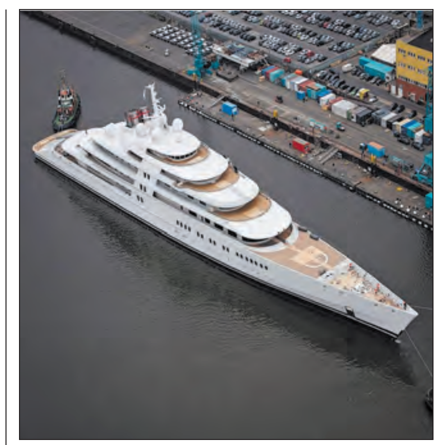
The US delegation to the IMO is strongly in favour of the Tier III emission limits, and, by their own admission, did not foresee the Russian move.

Jeffrey G. Lantz, director of commercial regulations and standards with the US Coast Guard and head of the US delegation to the IMO, says: "The US argued to retain the worldwide 2016 timeline. It was only after the decision . . . to agree with Russia's worldwide 2021 proposal that the US proposed keeping the 2016 date for the North America and Caribbean Sea Emission Control Areas (ECAs), but retaining the Russia 2021 timeline for yachts under 500 gross tons, as proposed by the Marshall Islands and Cook Islands.

"The primary reason for the US opposition to a delay . . . for the North America ECAs is to improve the air quality from the impact of today's marine vessels for the health and welfare of US and Canadian citizens," Mr Lantz adds.

"US engine manufacturers have made significant investments and are prepared to meet the Tier III standards in 2016. Unfortunately, this proposed delay removes certainty and regulatory predictability, which is important for their business planning."

The Russian proposal is expected to be adopted at the next IMO's environmental protection committee meeting in spring 2014, and is not expected to be challenged or overturned.



World's largest: Azzam Lurssen

Highs and lows reflect tough time

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world's wealthiest people, is doing little to lift the gloom in the market.

"I can't believe more businesses haven't gone bust because it's a fine line between survival and collapse," says Martin Redmayne, chairman and editor-in-chief of the Superyacht Group, the publisher and conference organiser. "It's the businesses that don't have a marketing budget, that relied on the strength of the market to bring business to their yards and used the deposit on the next project to finance the end of the last one – they're the ones most at risk."

Some 1,720 yachts – about a third of the world's yachts between 20m and 45m – are for sale, according to the yacht brokers Burgess. Over-supply is stagnating the market since, for many owners, the only obstacle to a new yacht is their existing one.

"Given that something like 200 yachts a year are sold second-hand, it will take 10 years to clean out the supply even if no new yachts of that length come on to the market," says Jonathan Beckett, chief executive of Burgess. At the very top of the market, however, for boats of more than 60m, there are understood to be buyers, so the yards involved in big builds such as Lurssen, the German builder, and Feadship Royal Dutch Shipyards are faring relatively well.

"There's been a flight to quality and in a Feadship you're getting the very best," says Chris Cecil-Wright, a former partner at Edmiston and now an independent broker specialising in yachts over 50m. While still at Edmiston he recently handled the sale and delivery of the 99m Madame Gu, the biggest superyacht to be built in the Netherlands. It has a squash court and a garage for the owner's car.

Refitting is popular among some buyers who can have a three to five-year-old boat customised or fitted out to their specifications, often at a fraction of the cost of a new-build.

The wealthiest sellers can sit tight, for now but that does not mean buying a yacht at the top of the market has been painless for all. One broker says he sold a yacht for a client in 2012 for €13m, some €8m less than its purchase price four years earlier. Running such a yacht can easily exceed more than €2m a year, so the real loss could have been double that. "He didn't even like yachting," says the broker. "He just wanted to try it and found that it wasn't for him."

From purchase to sale, the owner spent only 250 hours on the yacht, so the cost would have run to more than €64,000 an hour. "He thanked me," says the broker. "He said it had been like removing a pin from his foot."

Hein Velema, chief executive officer of Fraser Yachts, the broker, says he expects the brokerage market to stay slow in 2013 after two poor years. He urges sellers to price their yachts realistically in a market that has been starved of finance. "I don't want to sound negative, it's just that we're looking at a new market. There are so many boats for sale. For brokers it means that we have to work even harder at looking after our clients."

Dipping a toe: Indians begin a voyage of discovery

Sailing home: approaching the Colaba shore of Mumbai, the historic Taj Mahal Palace hotel to the right Robert Harding

India Off the Mumbai coastline, the signs are of a country finally setting sail, although progress remains slow, writes *Victor Mallet*

A visit to the Defence Services Sailing Club on the eastern fringes of New Delhi is a depressing experience for sailing enthusiasts, not to mention environmentalists.

The club premises are spick and span, and the dinghies are neatly stacked on their racks. But what was once an idyllic spot on the banks of the Yamuna river, a tributary of the Ganges, is no longer the place for a dinghy race or a pleasant evening sail. The Yamuna, its waters reduced by irrigation dams and polluted by greater Delhi's 22m people, has become an open sewer and the club is now rarely used for its intended purpose.

Such inland setbacks, however, do not tell the whole story. Far to the southwest, on India's busy west coast, yachting enthusiasts and investors in the marine leisure industry say there are signs that the country is finally beginning to emerge as a yachting and boating destination.

The industry is still "extremely small", says Aashim Mongia, managing director of West Coast Marine Yacht Services in Mumbai, India's commercial capital. "But the market is growing steadily at 10, 12, 15 per cent a year."

There are so far no large, modern marinas in India, and only about four luxury superyachts in the country owned by Indian tycoons.

But the number of smaller boats moored off downtown Mumbai's Colaba district – where the waterfront is dominated by the three historic edifices of the Gateway to India monument, the Taj Mahal Palace hotel and the Royal Bombay Yacht Club – has risen noticeably in the past five years.

Shakeel Kudrolli, a competitive sailor who founded the Indian Marine Federation and the yachting company Aquasail, says he senses substantial "latent demand" for yachting and sailing among increasingly wealthy and sports-orientated Indians.

"From a commercial perspective, we've had 20,000 people sail with us in the past four years, so the desire to go boating is obviously huge," he says. Aquasail now has 80 boats of various sizes – including 40 at the Grand Hyatt hotel in Goa – and arranges activities from sailing lessons and charters to corporate outings.

The sport was given a fillip this year when Lt Cmdr Abhilash Tomy of the Indian navy became the first Indian to sail solo, non-stop and unassisted, around the world.

"It's starting to happen," Mr Kudrolli says of Indian sailing, citing a couple in their 70s trained by Aquasail, who have just decided to fly to Croatia for a holiday afloat.

Yet the fact that the couple chose the Adriatic rather than the Arabian Sea or Indian Ocean points to some of the obstacles that stand in the way of India's leisure marine industry.

Both the physical and regulatory infrastructure needed to sustain marine sports are noticeable by their absence and even the two new marinas that are planned for Goa have been blocked by the western state's government.

> The number of small boats moored off the waterfront has risen noticeably

The terrorist assault on Mumbai hotels in 2008 – in which the attackers arrived in south Mumbai by inflatable speedboats – had already led to official security restrictions on night sailing. Then the government classified yachts as luxuries, and sharply increased customs duties this year for imported boats.

"There's a lack of vision, there's a lack of infrastructure, a lack of clear-cut policy and regulation," says Mr Mongia, bemoaning the fact that yachting is considered "an elitist, rich man's sport".

He urges the government to emulate southeast Asian countries such as Thailand and Malaysia that have welcomed sailing and yachting as a boost to their tourism industries. "That entire area is buzzing," he says. "The tourism market would benefit hugely out of this, it would benefit the entire coastline."

Except in the Andaman Islands, near the Burmese coast, even visiting yachts are few and far between in India, and circumnavigators have for years stopped in Galle in Sri Lanka rather than risk the horrors of Indian bureaucracy. "Yes, they find that India is too much of a pain," says Mr Mongia when asked whether that is still the case.

Some sailors insist that the problem is as much cultural as bureaucratic. "What is required is less lazy people, who are willing to use the boats they have bought," says a frustrated Bharat Kewalramani, a Mumbai-based entrepreneur, who was one of the first to import yachts to the city in the modern era, and remains one of its keenest yacht racers.

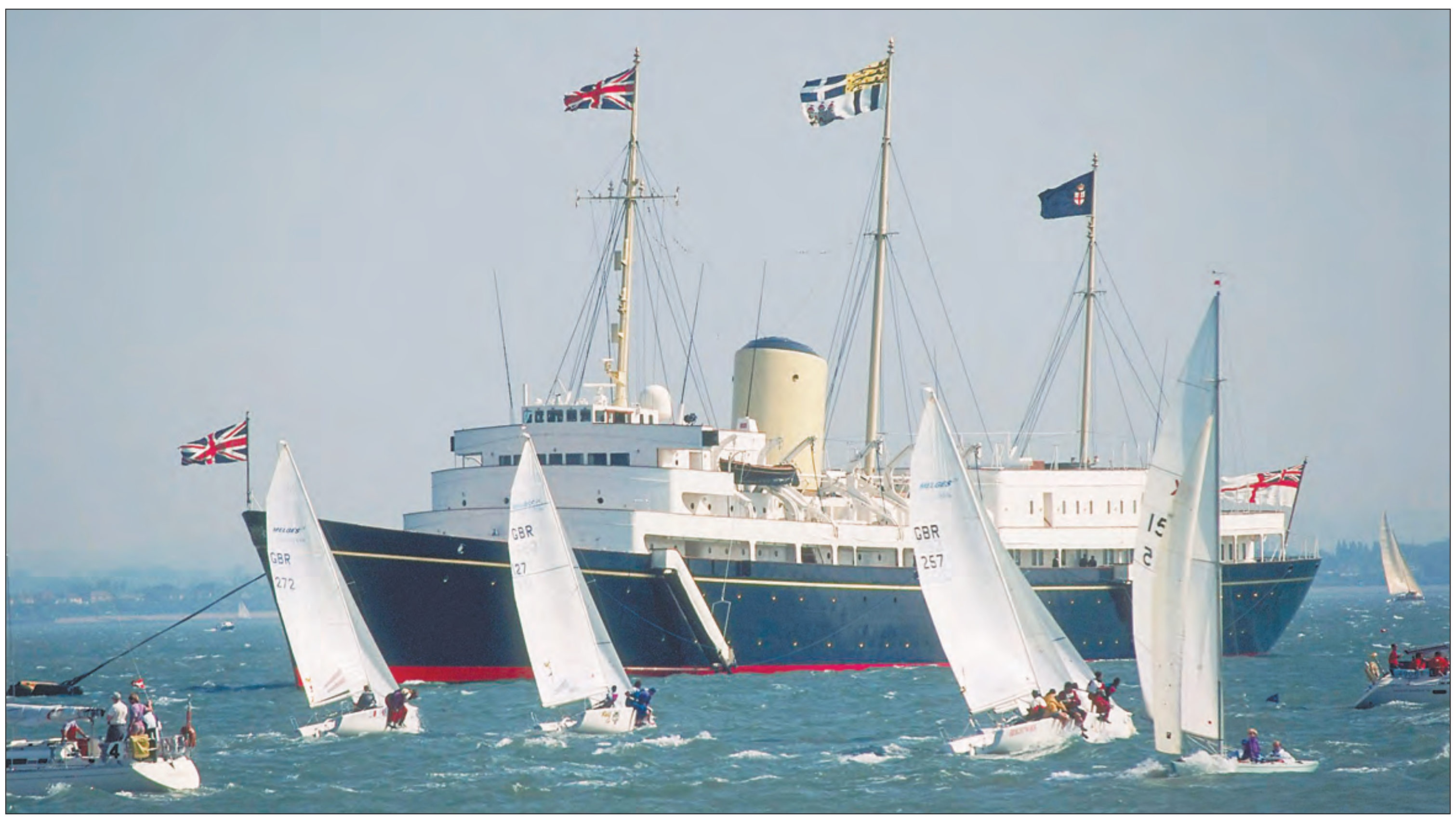
"The one thing that everybody forgets is that we have the most fantastic wind. Mumbai is just an enormous harbour," he adds. "But there's a huge problem of culture. Guys here spend a couple of hundred grand on a boat that they don't use."

Mr Kudrolli of Aquasail suggests that one reason for the limited usage of boats is that India's shortcomings, including the absence of marinas, did cause disappointments for "early adopters" of the sport.

"There were several things that didn't fall into place," he says. "They probably didn't realise there are many other factors [beyond the boat] that make boating enjoyable. You need to be able to go to a place, another marina, and spend time with friends."

When the first new marina is finally developed, it should have a positive effect on the whole business of yachting. "Once there's a good test case of building a marina, there are many people prepared to invest," Mr Kudrolli says.

As with so many businesses in India, patience is essential. It is likely to take years before sailors and marine industry pioneers can make the most of India's obvious natural advantages, including its long coastline. "There is a huge, huge potential out there," says Mr Mongia. "Unfortunately, it's not being tapped."



Britannia II would showcase the UK

Opinion
MARTIN REDMAYNE

Ask people to name a royal or state yacht and HMY Britannia will be among the first that comes to mind. Since the vessel was decommissioned in 1997, however, Britannia has become a shy museum piece in the port of Leith, Edinburgh.

Now, with Denmark, Norway, Oman, Dubai, Qatar, Saudi Arabia, Turkey and most recently Russia all operating or planning to commission a state yacht, is it not time the topic of a British state yacht was again raised for debate?

Back in 1994, Sir Donald Gosling, the multimillionaire founder of National Car Parks, launched a serious campaign for a replacement for Britannia. Private money was in place and had John Major been re-elected as prime minister in 1997, a British state yacht was to have been commissioned and made available to Queen Elizabeth should she need a royal cabin when overseas.

Despite Britannia's 43-year service life, it was only in the yacht's twilight years in the early 1990s that it really started to earn its keep, with an estimated £3bn of commercial trade deals and UK order book activity delivered by her travels, measured by the government's overseas trade board.

Before that she produced valuable regal PR whenever the Queen was on tour – the ship's log records somewhere near 1m nautical miles of cruising around the world. She was recognised and respected by many as a brilliant marketing tool for Britain and its maritime heritage.

April 2014 is the 60th anniversary of Britannia's maiden voyage, and as early as January last year, UK prime minister David Cameron suggested he would back a state yacht if the project was self-financed and needed no support from HM Treasury. Opponents, including Nick Clegg, the deputy prime minister, criticised the focus on the "haves and the have yachts" at a time when there are many "have nots".

The argument, which was always likely to be made by politicians dependent on votes, is a serious stumbling block for a project that potentially would take a decade or more to design, build and commission. But if the facts were presented clearly and private finance was available, there is no reason why such a scheme should not be seriously considered by British industry.

The UK is home to many of the world's leading designers and architects, so a state yacht could easily become a statement of the nation's creative excellence. Britain still has some remarkable expertise and skills when it comes to engineering, shipbuilding and craftsmanship, and these too could be highlighted.

Britannia II would provide a platform for high-tech emerging companies to promote our technical and engineering excellence around the world, sailing into territories that can be difficult to engage with through conventional trade processes.

Even the yacht's construction could be part of a government apprentice and skills training initiative. If every interior detail, item, fixture and fitting was "made in Britain", who could argue against the job creation and demonstrable quality proposition of such a "pride of the UK" project?

Britannia II would potentially cost in excess of £100m to build, with an annual operating budget of £10m-£20m. However, when you consider that estimated £3bn of trade value generated in the early 1990s in five years of global business tours, the numbers start to make sense.

HMY Britannia at Cowes Week in 1996 (top); Nelson Mandela welcomes the Queen in South Africa, 1995 (right) Allsport/Getty

Opponents criticised the 'haves and have yachts' at a time when there are many 'have nots'

In principle, it would be easy to identify a list of companies and individuals, in the same vein as Sir Donald, who could contribute to this project. The contribution could be in material or monetary terms – say, BP for operating fuels, Rolls-Royce for engines and machinery, and perhaps Google as a generous philanthropic contribution to UK plc, assisting the country's search for business and as a thank you for such beneficial trading conditions.

Some 20 companies or individuals each making a £5m donation could be part of a trade-off against access and use of the vessel for an annual corporate hospitality event, depending on how HM Revenue & Customs viewed the initiative.

Sceptics and naysayers would undoubtedly pour scorn on such a scheme, but at a time when the biggest businesses seem to be recovering faster than most, here is an opportunity for them to give something back.

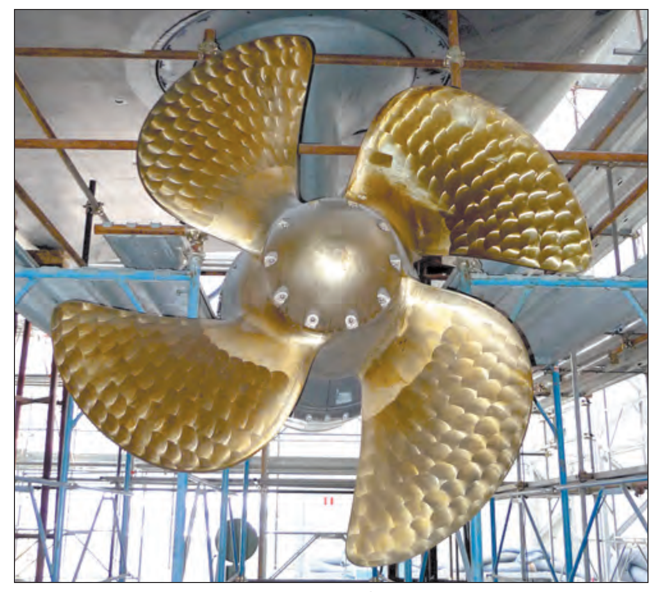
Britannia II would not only deliver a feelgood factor to the royalists and true Brits among us – it would also be a proud icon of British quality and excellence. If a great British state yacht was self-financed and a driver of British exports, surely it is a case of "why not?" as well as "have yacht".

Martin Redmayne is chairman and editor-in-chief of The Superyacht Group

Italian builders craft a future out of adversity

Boatbuilding

China is among the new markets targeted as domestic sales stagnate, writes *Richard Donkin*



Perini Navi's Picchiotti yard in La Spezia Richard Donkin

Traffic stops and restaurants empty when a big motor yacht on its low-loader trundles through the small Italian port of Viareggio. Cars are cleared from the streets for what is a regular but always breathtaking sight. Ships have been built here since before the Renaissance.

This ship comes from the Vitelli family-owned Azimut Benetti Group. Some of Italy's most prestigious yacht builders have yards in Viareggio: the giant sheds of Benetti, Perini Navi, Rossinavi, VSY, Codecasa and Sanlorenzo dwarf the seafront shops and hotels.

Much of the town relies on the industry. Yet teams of specialists working in nearby La Spezia, fitting out two of Perini Navi Group's latest yachts under the Picchiotti brand, are Austrian and Dutch. While Italy still commands the lion's share of luxury yacht new builds, the market for skills and expertise is international, with strong competition from Germany and the Netherlands.

Every country engaged in building big yachts has suffered from the slump in sales since the 2008 financial downturn. Before then the luxury yacht market had been riding high, with demand outstripping supply and speculative buyers sometimes ordering a succession of yachts, believing they would find buyers for those they did not need.

At Perini Navi in Viareggio and La Spezia, new builds are still under way, but finding fresh orders in a tight market is tough and much of the new work involves refitting and customising existing yachts.

Fabio Perini, the paper-making machinery entrepreneur who founded the business, laments the tax interventions that undermined the domestic luxury yacht market. A mooring tax announced in 2011 was scrapped after protests. But a levy remains for Italian owners and a clampdown on tax evasion among wealthy Italian nationals has led to an exodus of yachts from Italian marinas.

"We are still feeling the effect of that," says Mr Perini. "There doesn't seem to be an understanding that shipbuilding here feeds through the economy to the thousands who depend on it for their livelihoods and to all the subcontractors."

Italy's traditional shipbuilding skills persuaded Angelo Bonati, chief executive of Officine Panerai, the watchmaker and sponsor of classic yacht regattas, to have the company's 1936 William Fife III-built ketch, Eilean, restored in La Spezia.

"The Italian yacht industry can deliver the same kind of craftsmanship that goes into making our watches. The skills have been retained here and that's important," he says. "People here are passionate about the sea and about their craftsmanship."

A clampdown on tax evasion has led to an exodus of yachts from Italian marinas

According to UCINA, the Italian marine industry body, the yacht sector generated €2.5bn-€2.8bn in 2012, with Italian yards and brands taking a 39 per cent share of superyacht building internationally.

With the internal market for superyachts at a standstill, Italian boatbuilders are looking to the export market and a loyal customer base. One of the biggest groups, Ferretti, which includes iconic brands such as Riva and Pershing, is majority-owned by Weichai, part of the Chinese state-owned Shandong Heavy Industry Group.

Ferruccio Rossi, Ferretti chief executive, is excited about the benefits of Chinese ownership as the company tries to break into an Asian market that has been difficult to penetrate.

"The argument goes that the Chinese prefer to take their leisure away from the sea and sun," says Mr Rossi. "There are 1.3bn people in China. Even if we can get a tiny fraction of that market it will make a big difference."

For now, the biggest markets remain Europe and the US. Azimut Benetti, which for most of its life has had a similar growth pattern to Ferretti, has clung to family ownership, led by founder Paolo Vitelli. The company believes this is a strong selling point where market uncertainty and long lead times from order to delivery have led potential buyers to look carefully at the financial stability of builders.

Azimut Benetti's latest sales brochure contains some impressive statistics: nil debt, one shareholder, €300m in net assets and €600m in production value. "That says a lot about our business. It is important for potential owners to know a brand is secure," says Giovanna Vitelli, head of corporate communications.

This is not to say the company has not endured financial pain in the past few years. In 2008, at the height of the bubble and the year that the economic crisis hit, turnover was €1bn. In 2011, this was down to €600m.

The company is bringing on new ranges and is cautiously confident. "An owner can come to our yard and see the yachts in build, knowing that after three years the boat will be delivered. This is our guarantee," Ms Vitelli says. While smaller Italian yards that have relied on home sales struggle without an upturn, more established brands with good export markets remain optimistic.

Identical racing boats cut expense

Competition

One-design classes offer close finishes and cost savings, writes *Rod Newing*

As professional yacht racing has become more competitive, costs have soared and sponsors have had to look much harder at returns. This focus on costs is driving a move to more one-design classes, where teams race against each other in identical boats.

This can result in often highly dramatic, competitive racing, according to Mark Turner, executive chairman at OC Sport, a professional sailing marketing and events company.

"These are extraordinary sporting and human stories that make very engaged, emotionally charged partnerships for sponsors," he says. "They are high risk and the single-handed aspect increases the emotional level."

The expensive, one-off Ocean Racing Multihull Association (ORMA) 60 multihulls have stopped racing, with the vacuum being filled by Multihull One Design (MOD) 70 boats.

The Volvo Ocean Race, the fully crewed, round-the-world event with stopovers, has just announced a one-design class for the next two races in 2014 and 2017. This follows a number of other professional one-design classes, including RC44 monohulls and Extreme 40 and America's Cup AC 45 catamarans.

Identical boats allow teams to compete on level terms, with the best sailors winning. Budgets are lower, as competitors share design costs, spares and shore crew. This contrasts with open or box rule classes, where each boat is individually designed, by highly paid designers and engineers, within overall rule restrictions. This often results in those with the largest budget winning, especially if they hire crew early to ensure a long preparation period.

The Volvo Ocean race is expecting teams to budget about €11.5m for a one-design boat, if it is used for two races. This compares with an average of €25m in the last race for a unique boat that could be used only once, as it would not be competitive in the following race. Paul Miller, director of underwriting at R&Q Marine, which insures racing yachts, says these boats are worth only 35 per cent of build costs at the end of the race.

The disadvantage of one-design boats is the lack of innovation and development of new ideas, designs materials and building techniques that benefit the wider yachting industry.

Knut Frostad, chief executive of the Volvo Ocean Race, says more development has gone into the new one design than any previous one-off boat in the race. "Sponsors want less risk and a higher return," he says. "They don't get much benefit from developing small incremental speed gains or using specialised technologies."

However, large one-design yachts are only practical for small fleets. The last Vendée Globe single-handed nonstop round-the-world race attracted 20 entries, six new, eight from the previous race and six older ones.

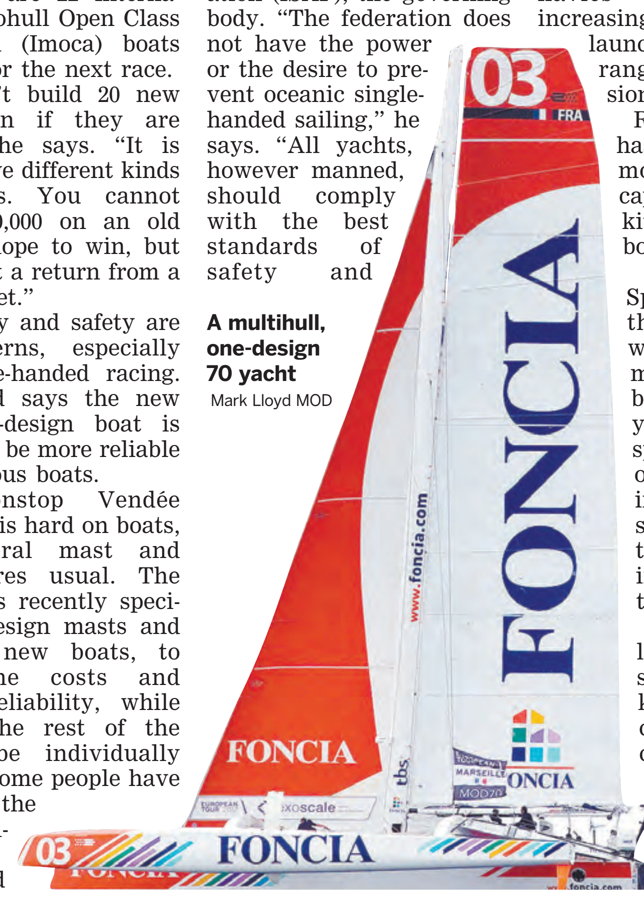
Alain Gautier, a previous winner and safety consultant for the race, points out that there are 22 International Monohull Open Class Association (Imoca) boats available for the next race.

"We can't build 20 new boats, even if they are cheaper," he says. "It is good to have different kinds of budgets. You cannot spend €500,000 on an old boat and hope to win, but you can get a return from a small budget."

Reliability and safety are key concerns, especially with single-handed racing. Mr Frostad says the new Volvo one-design boat is intended to be more reliable than previous boats.

The nonstop Vendée Globe race is hard on boats, with several mast and keel failures usual. The Imoca class recently specified one design masts and keels on new boats, to reduce the costs and increase reliability, while allowing the rest of the boat to be individually designed. Some people have challenged the whole concept of single-handed ocean racing, especially as it is not possible to keep watch and avoid collisions. Two boats in the last Vendée Globe hit fishing vessels and one an escaped navigation buoy, more than in the six previous races combined. But there is general acceptance that sailors will always want to pit themselves alone against the ocean.

Jacques Lehn is chairman of the oceanic and offshore committee at the International Sailing Federation (ISAF), the governing body. "The federation does not have the power or the desire to prevent oceanic single-handed sailing," he says. "All yachts, however manned, should comply with the best standards of safety and efficiency in equipment and training."



A multihull, one-design 70 yacht Mark Lloyd MOD

Having fallen overboard from a smaller yacht in a single-handed coastal race, Mr Gautier knows the risk of single-handed sailing.

He believes that the risks are reduced by harnessing a race organisation to provide safety rules and ensure thorough preparation.

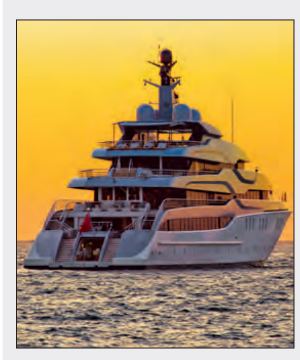
As when he fell overboard, single handed racing has a good record of competitors rescuing themselves and each other, as navies have become increasingly reluctant to launch expensive long-range rescue missions.

R&Q's Mr Miller has been pushing for more self-rescue capabilities, such as kites for dismasted boats.

Mr Turner of OC Sport points out that round-the-world races have so many uncontrollable variables that you cannot sell sponsorship based on the boat finishing, so most sponsors plan to get their return on investment before the race starts.

"It's hard to limit budgets but sponsors need to know they can be competitive with a certain budget and not fail because they didn't put enough money in," Mr Turner says.

More on FT.com
Challenges times in chartering



Yacht builders and developers have been banking on a healthy charter market helping to rejuvenate an industry that has become swamped by second-hand yachts and dominated by sellers looking for buyers.

But chartering too has been forced to discount as prospective charterers drive hard bargains for what must be far and away the world's most expensive holidays. While chartering is growing more popular, the supply and choice of boats has increased, enabling potential customers to shop around.

Richard Donkin looks at the challenges facing a sector for whose top-end customers, as one broker says, "having a good time is not enough. They need to come away feeling they have had the experience of a lifetime."

To read the full story, go to: **www.ft.com/yachts-marinas2013**